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S E C R E T SECTION 1 OF 8 USNATO 5958

E.O. 11652: GDS, 12-31-81

TAGS: PFOR, NATO, XF

SUBJ: REPORT TO NATO MINISTERS ON THE SITUATION IN THE MEDITERRANEAN

FOLLOWING IS TEXT OF C-M(73)117 (REVISED), THE DOCUMENT WHICH
IS SUBMITTED TO MINISTERS FOR CONSIDERATION UNDER ITEM II(B)
OF THE NAC MINISTERIAL AGENDA:

EGIN TEXT

DEVELOPMENTS IN THE MEDITERRANEAN
MAY TO NOVEMBER 1973

1. AT THEIR LAST MEETING, IN COPENHAGEN, ON 14TH AND 15TH
JUNE, 1973, MINISTERS NOTED A REPORT ON THE SITUATION IN
THE MEDITERRANEAN (C-M(73)49(REVISED)) WHICH HAD BEEN PREPARED
ON THEIR INSTRUCTIONS BY THE COUNCIL IN PERMANENT SESSION. IN
PARAGRAPH 12 OF THEIR COMMUNIQUE, MINISTERS INSTRUCTED THE
COUNCIL IN PERMANENT SESSION TO CONTINUE KEEPING A CLOSE WATCH
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ON DEVELOPMENTS AND TO REPORT TO THEM AT THEIR NEXT MEETING.

2. IN ACCORDANCE WITH THESE INSTRUCTIONS, THE COUNCIL IN
PERMANENT SESSION ARRANGED FOR THE FOLLOWING REPORT TO BE

PREPARED ON THE SITUATION IN THE MEDITERRANEAN. THIS REPORT, WHICH SHOULD BE REGARDED AS PART OF THE CONTINUING REVIEW OF, AND CONSULTATION ON THE SITUATION IN THE MEDITERRANEAN, BEGINS WITH AN ACCOUNT OF EVENTS AND DEVELOPMENTS SINCE JUNE 1973 AND GOES ON TO DESCRIBE HOW THESE EVENTS HAVE AFFECTED THE ANALYSIS OF THE SITUATION AND ITS IMPLICATIONS FOR THE ALLIANCE AS PRESENTED BY THE COUNCIL TO MINISTERS IN ITS PREVIOUS REPORTS.

I. NEW DEVELOPMENTS IN THE POLITICAL, MILITARY AND ECONOMIC
ECONOMIC SITUATION

A. POLITICAL

(A) BEFORE 6TH OCTOBER, 1973

EGYPT

3. IN RECENT MONTHS, PRESIDENT SADAT'S POSITION ON THE DOMESTIC FRONT HAD GRADUALLY BECOME STRONGER. IN THE FIELD OF FOREIGN POLICY, HE HAD SUCCEEDED IN VIRTUALLY POST-PONING THE PROPOSED UNION WITH LIBYA. AT THE SAME TIME, HE HAD PAVED THE WAY FOR A RAPPROCHEMENT WITH OTHER ARAB COUNTRIES WITH WHICH HE WAS IN DISAGREEMENT, IN PARTICULAR WITH KING FAISAL AND EMIRS OF THE PERSIAN GULF. IN THE COURSE OF THESE CONTACTS, HE MUST HAVE RECEIVED PROMISES OF FINANCIAL AID FROM THE SAUDI KING. THE POSSIBILITY OF USING THE "OIL WEAPON" AS A MEANS OF EXERTING PRESSURE IN THE CONTEXT OF THE ARAB-ISRAELI DISPUTE WAS ALSO DISCUSSED.

4. JUDGING FROM THE WAY HAFEZ ISMAEL, PRESIDENT SADAT'S SPECIAL ADVISER, WAS RECEIVED ON HIS VISIT TO MOSCOW IN JULY, SOVIET-EGYPTIAN RELATIONS HAD NOT APPARENTLY RECOVERED THEIR FORMER CORDIALITY. INDEED, IN A MAJOR SPEECH MADE IN JULY, SADAT DECLARED THAT MILITARY CO-OPERATION BETWEEN EGYPT AND THE USSR STILL LEFT MUCH TO BE DESIRED.

LIBYA

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5. GADAFY HAD HAD TO FALL IN WITH GADAT'S VIEWS REGARDING THE PROPOSED UNION BETWEEN THE TWO COUNTRIES. TO BE SURE, AN AGREEMENT WAS SIGNED ON 29TH AUGUST, BUT THE UNIFIED STATE FOR WHICH IT PROVIDES WOULD COME INTO BEING ONLY AT THE END OF A GRADUAL PROCESS OF UNDETERMINED DURATION COMPRISING INTER ALIA, THE CREATION OF A JOINT CONSTITUENT ASSEMBLY TO BE RESPONSIBLE FOR THE DRAFTING OF A COMMON CONSTITUTION. IN ACTUAL FACT, THE TOTAL UNION FORMULA HAS BEEN SHELVED, AT LEAST FOR THE TIME BEING. THE MACHINERY OF BOTH STATES CONTINUES ITS SEPARATE EXISTENCE. FOR GADAFY, WHO HAD STAKED HIS WHOLE PRESTIGE ON THE OPERATION, THE SETBACK MUST BE BITTER.

6. THE LIBYAN GOVERNMENT TOOK MEASURES IN SEPTEMBER WHICH APPEAR TO AMOUNT TO AN EXTENSION OF "INTERNAL" WATERS. THE AREA CONCERNED, THE GOLF OF SIRTE, AMOUNTS TO ABOUT 37,500 SQUARE MILES.

7. THE CULTURAL REVOLUTION, WHICH WAS LAUNCHED LAST SPRING, HAD LOST ITS MOMENTUM.

SYRIA

8. TOWARDS THE END OF SUMMER, MANIFEST SIGNS OF FRICTION HAD APPEARED IN RELATIONS BETWEEN SYRIA AND THE SOVIET UNION, SO THAT SOME OBSERVERS WERE WONDERING WHETHER PRESIDENT ASSAD WOULD NOT FOLLOW SADAT'S LEAD AND SEND HOME THE SOVIET ADVISERS WORKING IN HIS COUNTRY.

JORDAN

9. THANKS IN LARGE MEASURE TO THE EFFORTS OF KING FAISAL, THE RETURN OF KING HUSSEIN TO THE ARAB FOLD HAD PROGRESSED CONSIDERABLY. FOLLOWING A SUMMIT MEETING IN CAIRO IN MID-SEPTEMBER BETWEEN PRESIDENT SADAT, PRESIDENT ASSAD AND KING HUSSEIN, EGYPT AND SYRIA BOTH RE-ESTABLISHED DIPLOMATIC RELATIONS WITH JORDAN. AT THE SAME MEETING, STEPS WERE TAKEN WITH REGARD TO REACTIVATING - ALBEIT SOMEWHAT THEORETICALLY - THE EASTERN FRONT WITH ISRAEL. LASTLY, A CERTAIN REDUCTION IN TENSION WAS NOTED IN THE OVERALL RELATIONS BETWEEN

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KING HUSSEIN AND THE PALESTINIAN RESISTANCE ORGANIZATIONS.

IRAQ

10. THE TALKS BETWEEN IRAQ AND KUWAIT WITH A VIEW TO SOLVING THE FRONTIER DISPUTE HAVE STILL NOT LED TO ANY RESULT.

11. DESPITE PERSISTENT DIFFICULTIES WHICH LET TO IRAQI MOVES AGAINST THE SOVIET, CZECH, AND EAST GERMAN CULTURAL CENTRES IN BAGHDAD, GOOD RELATIONS WITH THE SOVIET UNION APPEARED TO HAVE BEEN MAINTAINED. THE IRAQI BA'ATH AND COMMUNIST PARTIES HAVE ENTERED INTO A PACT FOR NATIONAL UNITY WHICH THE KURDISH DEMOCRATIC PARTY HAS, HOWEVER, REFUSED TO JOIN.

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ISRAEL

12. MRS. GOLDA MEIR FINALLY AGREED TO STAND FOR THE NEXT ELECTIONS AS LEADER OF THE LABOUR PARTY. PUBLIC OPINION, LIKE OPINION WITHIN THE CABINET, WAS STILL DEEPLY DIVIDED OVER THE POLICY TO BE FOLLOWED WITH REGARD TO THE OCCUPIED TERRITORIES. THE LABOUR PARTY PLATFORM PROVIDED FOR A MORE FORWARD POLICY, INCLUDING THE APPARENT ANNEXATION OF OCCUPIED TERRITORIES IN THE LONGER TERM.

OTHER COUNTRIES

13. AT THE SUMMIT CONFERENCE OF NON-ALIGNED COUNTRIES IN ALGIERS, MALTA, IN ORDER TO WIN ADMISSION TO THIS GROUP OF STATES, UNDERTOOK TO PUT AN END TO THE WESTERN MILITARY PRESENCE ON ITS TERRITORY IN 1978.

14. A COMPROMISE FORMULA WAS REACHED AT THE END OF AUGUST ON THE MANNER IN WHICH ALGERIA AND TUNISIA, AS WELL AS
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OTHER INTERESTED MEDITERRANEAN COUNTRIES, SHOULD PRESENT THEIR VIEWS DURING THE SECOND STAGE OF THE CSCE, WHICH OPENED IN GENEVA ON 18TH SEPTEMBER. SINCE THE SIX COUNTRIES - ALGERIA, TUNISIA, ISRAEL, SYRIA, EGYPT AND MOROCCO - MADE USE OF THIS RIGHT. ALTHOUGH MOST OF THESE INTERVENTIONS MADE BETWEEN 9TH OCTOBER AND 13TH NOVEMBER ALSO RAISED THE MIDDLE EAST CRISIS, THIS DID NOT CREATE DIFFICULTIES FOR THE CONFERENCE.

(B) AFTER 6TH OCTOBER 1973

15. ON 6TH OCTOBER, 1973, EGYPT AND SYRIA OPENED HOSTILITIES ON THEIR RESPECTIVE FRONTS AGAINST ISRAELI FORCES BY CO-ORDINATED ACTION.

16. VIRTUALLY THE WHOLE OF THE ARAB WORLD RALLIED TO THE CAUSE, EITHER BY SENDING TROOPS OR IN OTHER WAYS. HOWEVER, THE RESERVED ATTITUDE OF LIBYA WAS NOTICEABLE. AFTER REMAINING NEUTRAL FOR A FEW DAYS, JORDAN DECIDED TO SEND A CONTINGENT TO THE SYRIAN FRONT BUT TOOK NO MILITARY ACTION ALONG THE JORDAN FRONTIER, WHICH THUS REMAINED UNAFFECTED BY THE FIGHTING. THE PALESTINIAN GUERRILLA GROUPS BASED ON ARAB TERRITORY WERE LESS IN EVIDENCE THAN MIGHT HAVE BEEN EXPECTED. IT IS WORTH NOTING THAT THE ARAB CAUSE GAINED CONSIDERABLE POLITICAL SUPPORT IN THE THIRD WORLD. THIS APPLIED ESPECIALLY TO AFRICA, WHERE A MAJORITY OF COUNTRIES BROKE OFF DIPLOMATIC RELATIONS WITH ISRAEL. FOR ITS PART, IRAQ TOOK THE STEP OF RENEWING DIPLOMATIC RELATIONS WITH IRAN. ARAB TERRORIST GROUPS WERE RELATIVELY QUIET DURING THE HOSTILITIES - BOTH IN THE MIDDLE EAST AND ELSEWHERE IN THE WORLD, INCLUDING WESTERN EUROPE.

17. ON 10TH OCTOBER, A SOVIET AIRLIFT WAS STARTED. THIS AIRLIFT PROVIDED THE ARAB BELLIGERENTS WITH MASSIVE MILITARY AID. HAVING TRIED FOR SEVERAL DAYS TO BRING AN END TO THE FIGHTING THROUGH DIPLOMATIC CHANNELS, WHILE ATTEMPTING TO INDUCE THE SOVIETS TO EXERCISE RESTRAINT IN THEIR ARMS SHIPMENT, THE UNITED STATES GOVERNMENT FELT COMPELLED TO MOUNT A RAPID MILITARY RESUPPLY OPERATION TO ISRAEL IN ORDER TO RESTORE THE BALANCE OF FORCES IN THE REGION. DURING THE FIRST FEW DAYS OF THE WAR, THE KREMLIN ALSO SENT A MESSAGE TO BOUMEDIENNE THE OBJECT OF WHICH APPEARED TO BE TO EXHORT THE ARAB COUNTRIES TO GIVE THEIR FULL SUPPORT TO EGYPT AND SYRIA. BOUMEDIENNE VISITED MOSCOW
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UNEXPECTEDLY ON 14TH OCTOBER, NO DOUBT IN ORDER TO SOUND OUT SOVIET INTENTIONS REGARDING FUTURE DEVELOPMENTS. IN SO DOING, THE ALGERIAN PRESIDENT APPEARS TO HAVE ACTED IN HIS CAPACITY BOTH AS HEAD OF A LEADING ARAB STATE AND AS THE CURRENT PRESIDENT OF THE NON-ALIGNED GROUP.

18. THE UNITED NATIONS SECURITY COUNCIL CALLED FOR AN ON-THE-SPOT CEASE-FIRE IN ITS RESOLUTION 338 OF 22ND OCTOBER, 1973, WHICH WAS SPONSORED BY THE UNITED STATES AND THE SOVIET UNION. THIS INJUNCTION WAS REPEATED IN RESOLUTION 339 OF 24TH OCTOBER, WHICH AMONG OTHER THINGS CALLED ON THE BELLIGERENTS, TO RETURN TO THE CEASE-FIRE LINES OF 22ND OCTOBER. ON 24TH OCTOBER THE USSR REQUESTED THE UNITED STATES TO ASSIST IN HAVING THE DECISIONS OF THE SECURITY COUNCIL IMPLEMENTED BY MEANS OF A JOINT INTERVENTION AND IT DECLARED ITSELF RESOLVED, IF THE UNITED STATES DID NOT PARTICIPATE, TO INTERVENE ON A UNILATERAL BASIS. THIS SOVIET THREAT HAD TO BE CONSIDERED IN THE LIGHT OF CERTAIN SOVIET MILITARY ALERT AND PREPARATORY MEASURES THAT GAVE CREDENCE TO IT. THE UNITED STATES REJECTED JOINT US-SOVIET INTERVENTION, WARNED THE USSR AGAINST UNILATERAL ACTION AND CALLED FOR DIPLOMATIC CONSULTATIONS IN THE UNITED NATIONS. THIS UNITED STATES RESPONSE WAS ACCOMPANIED BY MILITARY ALERT OF THE US FORCES. FOLLOWING THE AMERICAN REACTION,

THE SOVIET UNION ABANDONED ITS INITIATIVE, WITH THE RESULT THAT THE MANIFESTLY DANGEROUS PRESENCE OF SOVIET TROOPS IN THE MIDDLE EAST WAS OBIATED. ON 25TH OCTOBER THE SECURITY COUNCIL ADOPTED RESOLUTION 340, TABLED BY THE NON-ALIGNED COUNTRIES. THIS DECIDED, IN PARTICULAR, ON THE DESPATCH TO THE WAR ZONE OF A UNITED NATIONS EMERGENCY FORCE MADE UP OF PERSONNEL DRAWN FROM UN MEMBER COUNTRIES OTHER THAN THE PERMANENT MEMBERS OF THE SECURITY COUNCIL; THE LATER PROVISION STEMMED FROM A UNITED STATES AMENDMENT.

19. EGYPT AND ISRAEL WERE FAIRLY QUICK TO ACCEPT THE CEASE-FIRE WHEREAS IT PROBABLY REQUIRED EGYPTIAN AND SOVIET APPROACHES TO DAMASCUS TO GET THE SYRIANS TO DO THE SAME. THAT THEY FINALLY DID SO WAS A POSITIVE FACTOR, IMPLYING SOME MEASURE OF TACIT ACCEPTANCE OF RESOLUTION 242, WHICH THEY HAD REFUSED OVERTLY TO APPROVE. ON THE OTHER HAND, IRAQ, LIBYA, ALGERIA AND KUWAIT REJECTED THE CEASE-FIRE.

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20. AFTER THE ADOPTION OF RESOLUTION 340 OF 25TH OCTOBER, 1973, THE SOVIET UNION ANNOUNCED THAT IT WAS SENDING "REPRESENTATIVES" TO THE MIDDLE EAST. BY AGREEMENT WITHIN THE UNITED NATIONS SECURITY COUNCIL, PROVISION WAS MADE FOR INCORPORATING THIRTY-SIX OF THESE "REPRESENTATIVES" AND AN EQUAL NUMBER OF AMERICANS INTO THE UN TRUCE SUPERVISORY ORGANIZATION.

B. MILITARY(1)

(A) BEFORE 6TH OCTOBER, 1973

21. THERE WAS NO OBVIOUS CHANGE IN THE MILITARY SITUATION IN THIS PERIOD.

22. IN JULY, THE SOVIETS DEPLOYED TWO AMPHIBIOUS SHIPS TO THE MEDITERRANEAN SPECIFICALLY TO TRANSPORT A SECOND CONTINGENT OF MOROCCAN TROOPS TO SYRIA.

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23. THE LIBYAN RESTRICTED AREA (HLR 22) IS UNCHANGED. AN INCIDENT OCCURRED BETWEEN LIBYAN AIRCRAFT AND A WARSHIP OF A NATO NATION BUT WAS APPARENTLY NOT CONNECTED WITH THE IMPOSITION OF HLR 22.

FOOTNOTE (1) THIS SECTION HAS BEEN SUB-DIVIDED INTO TWO PARTS, SINCE THE EVENTS PRIOR TO 6TH OCTOBER ARE NOW OF COMPARATIVELY ACADEMIC INTEREST AND SINCE THE NEW SITUATION CREATED BY THE WAR AND SOVIET ASSISTANCE TO THE ARABS IS TOO RECENT AND DYNAMIC TO PERMIT MORE THAN SUPERFICIAL OPINION, WITHOUT VENTURING FORECASTS FOR THE FUTURE.

NAVAL SITUATION

24. THE SOVIET MEDITERRANEAN SQUADRON WAS THE ONLY SOVIET OPERATIONAL FORCE IN THE AREA DURING THIS PERIOD.

25. DURING THE PERIOD THE STRENGTH OF THE SQUADRON REMAINED FAIRLY CONSTANT AT 15-17 SURFACE COMBATANTS AND 12-13 SUBMARINES; INTELLIGENCE COLLECTION AND HYDROGRAPHIC OPERATIONS CONTINUED AT THE USUAL HIGH LEVEL. THE SQUADRON STILL LACKED AIR RECONNAISSANCE AND MEDITERRANEAN-BASED AIR STRIKE CAPABILITY. THE SHIPS WERE DEPLOYED AS USUAL TO OBSERVE NATO EXERCISES, AND TO SHADOW THE MAJOR US NAVAL UNITS, BUT FOR THE MOST PART THEY REMAINED IN THEIR USUAL PORTS AND ANCHORAGES.

AIR AND MISSILE SITUATION

26. THERE WAS NO CHANGE IN THE SOVIET AIR AND MISSILE SITUATION IN THE AREA; THE SOVIET MISSILE CAPABILITY VARIES FROM TIME TO TIME WITH THE CAPABILITY OF THE SHIPS DEPLOYED WITH THE SOVMEDRON. THERE WERE NO OTHER SOVIET MISSILES UNDER SOVIET CONTROL IN THE AREA.

27. THE AIR AND MISSILE CAPABILITY OF THE ARAB COUNTRIES IN THE AREA CONTINUED TO BE IMPROVED WITH THE DELIVERY OF AIRCRAFT AND AIR DEFENCE MISSILES FROM THE SOVIET UNION. THE AIR DEFENCE POSTURE OF LIBYA WAS IMPROVED BY THE TRANSFER OF SURFACE-TO-AIR MISSILES, ANTI-AIRCRAFT GUNS AND ASSOCIATED

RADARS, INCLUDING SOME SA-6 (GAINFUL) EQUIPMENT OF SOVIET
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ORIGIN FROM EGYPT.

SOVIET BLOC ARMS DELIVERIES

28. THE SUPPLY OF ARMS TO SYRIA, EGYPT, ALGERIA, MOROCCO
AND IRAQ CONTINUED. THE QUANTITIES AND TYPES OF EQUIPMENT TO
EACH COUNTRY VARIED, WITH SYRIA AS THE MAIN RECIPIENT. THE
METHODS OF DELIVERY SUCCESSFULLY CONCEALED THE ACTUAL TOTALS
AND IN VIEW OF THE STATE OF PREPAREDNESS OF THE ARABS ON
6TH OCTOBER, IT IS APPARENT THAT THEY WERE UNDERESTIMATED.

MINING OF LIBYAN WATERS

29. TWO SMALL COASTAL AREAS NEAR TRIPOLI WERE MINED IN
JUNE. THE DETAILS OF THESE AREAS WERE NOT PUBLISHED IN
ACCORDANCE WITH INTERNATIONAL PRACTICE UNTIL SOME TIME AFTER
TWO GREEK MERCHANT SHIPS WERE DAMAGED, ONE OF WHICH SUBSEQUENTLY
SANK. THE MINEFIELDS ARE NEAR OKBA BIN NAFI AIRFIELD
(WHEELUS FIELD) AND EXTEND FOUR MILES TO SEAWARD IN ONE PLACE.
HOWEVER, LIBYA HAS CLAIMED A 12-MILE LIMIT OF TERRITORIAL WATERS
SINCE 1959. A FURTHER MINEFIELD IN THE GULF OF BOMBA WAS
ANNOUNCED BY LIBYA IN OCTOBER.

(B) AFTER 6TH OCTOBER

30. THE REPORTED DIRECT SOVIET MILITARY SUPPORT TO THE
ARAB NATIONS DURING THE WAR HAS BEEN AT LEAST TWOFOLD:
(I) A DOUBLING OF THE NUMBERS OF THE SURFACE COMBATANTS
AND AN ENLARGED SUBMARINE PRESENCE IN THE SOVMEDRON;
(II) A VERY SUBSTANTIAL AIR AND SEA LIFT OF MATERIAL.

THE ROLE OF THE SOVMEDRON

31. THE BUILD-UP OF THE SOVMEDRON AGAIN DEMONSTRATES THE
SOVIET ABILITY AND WILLINGNESS TO SUPPORT THEIR INTERESTS WHERE
CIRCUMSTANCES PERMIT BY CONCENTRATING SUITABLE NAVAL FORCES AT
SHORT NOTICE AND DEPLOYING THEM TO TROUBLE SPOTS. THE PROXIMITY
OF THE AREA TO THE BLACK SEA BASES OF COURSE MAKES IT VERY EASY
UNDER PEACETIME CONDITIONS FOR THE SOVIET UNION TO DEPLOY LARGE
NUMBERS OF SURFACE SHIPS IN THE EASTERN MEDITERRANEAN AND TO
CONCENTRATE THEM RAPIDLY.

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SOVIET AIRLIFT

32. A FEW DAYS AFTER THE CONFLICT STARTED A SOVIET AIRLIFT WAS ESTABLISHED TO EGYPT AND SYRIA PRESUMABLY TO MAKE GOOD THEIR LOSSES AND IT CONTINUED FOR THE REST OF THE MONTH. IT IS ESTIMATED THAT THE SOVIET AIRLIFT COULD HAVE LIFTED A POTENTIAL OF 17,000 TONS TO EGYPT AND SYRIA COMBINED BY 30TH OCTOBER.

33. THE SOVIET ABILITY TO MOUNT AN AIRLIFT OF THIS MAGNITUDE OVER THESE ROUTE LENGTHS DEMONSTRATES THE FLEXIBILITY WHICH IS PROVIDED BY THEIR VERY LARGE AIR TRANSPORT FORCE. IT SHOWS THEY CAN QUICKLY REINFORCE AN AREA SUBSTANTIALLY WHEN IT IS IN THEIR INTEREST TO DO SO.

SOVIET SEALIFT

34. BETWEEN 5TH OCTOBER AND MID-NOVEMBER APPROXIMATELY 116 SOVIET AND WARSAW PACT MERCHANT SHIPS HAVE CALLED AT EGYPTIAN, SYRIAN AND LIBYAN PORTS. THIS COULD REPRESENT A CARRYING
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CAPACITY OF ABOUT ONE MILLION TONS.

SOVIET TRAINING

35. IT SEEMS THAT SOVIET TRAINING AND EQUIPMENT PERMITTED THE ARABS TO ACQUIT THEMSELVES BETTER IN BATTLE THAN EVER BEFORE; BUT THIS QUESTION NEEDS FURTHER ANALYSIS.

C. ECONOMIC

GENERAL TREND

36. THE CONFLICT BETWEEN ISRAEL AND SOME OF ITS NEIGHBOURS MAKES IT EXTREMELY DIFFICULT TO HAZARD A SHORT-TERM ECONOMIC FORECAST BASED ON AN ANALYSIS OF TRENDS IN THE MIDDLE EAST ECONOMIES IN THE SIX-MONTH PERIOD FOLLOWING THE PREVIOUS REPORT. THE CONFLICT MUST INEVITABLY HAVE AN EFFECT ON THE ECONOMIC DEVELOPMENT OF SYRIA, EGYPT AND ISRAEL. THE MOBILIZATION OF NATIONAL RESOURCES HAS UNDOUBTEDLY DISRUPTED SACTIVITY IN THE VARIOUS ECONOMIC SECTORS AND WILL LEAD TO A SLOWER RATE OF GROWTH WHILE AT THE SAME TIME GENERATING A SHARP INCREASE IN DEFENCE EXPENDITURE.

37. IN EGYPT, THE AUTHORITIES HAVE REMAINED VERY CIRCUMSPECT ABOUT THE IMMEDIATE ECONOMIC REPRECUSIONS OF THE WAR WITH ISRAEL. HOWEVER, IT APPEARS THAT PRICE INCREASES AND FRESH TAXATION HAVE BEEN DECIDED UPON AND THAT CERTAIN COMMONLY-USED COMMODITIES HAVE BEEN MORE STRICTLY RATIONED. LIBYA - EMULATED BY SEVERAL OTHER ARAB COUNTRIES - HAD UNDERTAKEN TO MAKE ITS OIL AND FINANCIAL RESOURCES AVAILABLE TO SYRIA AND EGYPT. ALSO, DURING A VERY RECENT INTERVIEW, COLONEL GADAFY REVEALED THAT HE HAD PURCHASED SOVIET MILITARY EQUIPMENT WWHICH WAS DELIVERED TO EGYPT, ALTHOUGH HE DID NOT SPECIFY THE AMOUNTS INVOLVED. SYRIA WAS SEVERELY HIT BY ITS CONFLICT WITH ISRAEL. ACCORDING TO OFFICIAL SOURCES, ITS LOSSES ARE PUT AT \$350 MILLION; OF THIS FIGURE, \$240 MILLION WERE FOR THE OIL INDUSTRY AND \$110 MILLION FOR RAILWAYS, CIVIL ENGINEERING WORKS AND TELE-COMMUNICATIONS. THE COST OF THE DAMAGE CAUSED TO THE PORTS OF BANIAS, TARTOUS AND LATAKIA HAS NOT BEEN DISCLOSED, NOR HAS THAT OF THE ATTACKS ON ALEPPO AND DAMASCUS. THE LEBANON AND JORDAN, WHERE THE ECONOMIC SITUATION WAS FAVOURABLE IMMEDIATELY
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PRIOR TO THE CONFLICT, DO NOT SEEM TO HAVE BEEN ESPECIALLY AFFECTED BY IT. JORDAN, IN PARTICULAR, IS AGAIN IN RECEIPT OF THE FINANCIAL AID, TOTALLING POUNDS 16 MILLION PER ANNUM, PREVIOUSLY GRANTED BY KUWAIT AND WHICH HAD BEEN CUT OFF FOR SOME YEARS. AT ALL EVENTS, BOTH SYRIA AND THE LEBANON HAVE INCURRED CERTAIN FINANCIAL LOSSES AS A RESULT OF THE STOPPAGE OF SOME DAYS OF PART OF THE OIL DELIVERIES VIA PIPELINES LOCATED ON THEIR TERRITORY.

38. IN IRAQ, THE GOVERNMENT HAS TAKEN A MARKEDLY DIFFERENT STANCE FROM THAT OF THE OTHER ARAB COUNTRIES AS REGARDS A CUT-BACK IN ITS OIL OUPUT. IT HAS DECIDED TO RETAIN COMPLETE FREEDOM TO DELIVER OIL TO "FRIENDLY" COUNTRIES AND TO CUT OFF SUPPLIES TO COUNTRIES REGARDED AS "ENEMIES". THERE ARE SEVERAL REASONS FOR THIS ATTITUDE: ON THE ONE HAD, VIRTUALLY 100 PERCENT OF THE OIL INDUSTRY IS IRAQI-OWNED; THUS, EXTENSIVE CUT-BACKS IN OUTPUT WOULD HAVE A MORE ADVERSE ECONOMIC AND FINANCIAL

EFFECT ON IRAQ THAN ON THE OTHER ARAB COUNTRIES. ALSO, FOR HALF OF 1972 AND PART OF 1973, IRAQ'S OIL OUTPUT HAD DECLINED FAIRLY SHARPLY AS A RESULT OF ITS CONFLICT WITH THE CONCESSION-HOLDER, THE IPC. THUS, IN VIEW OF THE COUNTRY'S CONSIDERABLE DEVELOPMENT NEEDS, IT MIGHT BE DIFFICULT FOR IT TO PUT UP WITH THE ECONOMIC SACRIFICE INVOLVED IN WITHHOLDING OIL SUPPLIES ON THE SAME BASIS AS THAT ADOPTED BY THE GULF STATES. IN ADDITION, AN AGREEMENT HAS BEEN REACHED WITH TURKEY FOR THE CONSTRUCTION OF A 912-KILOMETRE PIPELINE BETWEEN KIRKUK AND DORTYOL ON THE MEDITERRANEAN COAST WHICH SHOULD BE ABLE TO CARRY 35 MILLION TONS OF OIL PER ANNUM.

39. IN ISRAEL, THE ECONOMY, WHICH ALREADY HAD TO CONTEND WITH A HIGH RATE OF INFLATION, IN THE REGION OF 13 PERCENT PER ANNUM, WAS HARD-HIT BY THE WAR WITH EGYPT AND SYRIA. ACCORDING TO TENTATIVE ISRAELI ESTIMATES, LOSSES IN GNP RAN AT APPROXIMATELY ISRAELI POUNDS 60 MILLION PER DAY, OR APPROXIMATELY \$14.4 MILLION. THE 16 DAYS OF WAR ARE REPORTED TO HAVE COST 2.8 PERCENT OF THE ANTICIPATED GNP FOR 1973, WHICH WAS INITIALLY ESTIMATED AT ISRAELI POUNDS 34,000 MILLION. A DROP IN EXPORTS WAS ALSO RECORDED IN OCTOBER FROM \$103 MILLION TO \$86 MILLION; THIS APPEARS TO BE LARGELY ATTRIBUTABLE TO CURRENT DEVELOPMENTS. FINALLY, THE BLOCKADE OF THE BAB-EL-MANDEB STRAIT HALTED ACTIVITY IN THE PORT OF EILAT, THOUGH WHICH PART OF ISRAEL'S OIL SUPPLIES ARE CHANNELLED.

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ANOTHER IMPORTANT CONSEQUENCE OF THE WAR FOR THIS COUNTRY - WHICH HAS A POPULATION OF FEWER THAN 3 MILLION - WAS THE MOBILIZATION OF RESERVE PERSONNEL, WHICH DISTURBED CERTAIN INDUSTRIES OWING TO THE TEMPORARY SHORTAGE OF LABOUR. THERE CAN BE NO DOUBT THAT THE PRESENT CONFLICT WILL CONTINUE TO HAVE ECONOMIC REPERCUSSIONS NEXT YEAR. IN ORDER TO MEET MILITARY EXPENDITURE, A COMPULSORY LOAN OF ISRAELI POUND 1 MILLIARD HAS BEEN FLOATED AND IT HAS BEEN DECIDED TO INCREASE TAXATION AND IMPORT DUTIES AND TO CUT DOWN CERTAIN SUBSIDIES.

THE OIL SECTOR

40. THE RELATIVE IMPROVEMENT NOTED DURING THE FIRST HALF OF THE YEAR IN RELATIONS BETWEEN THE INTERNATIONAL OIL COMPANIES AND THE MAJORITY OF ARAB OPEC COUNTRIES PROVED TO HAVE BEEN NOTHING BUT A LULL BEFORE THE STORM. ALL THE AGREEMENTS LABORIOUSLY WORKED OUT SINCE 1971, PARTICULARLY THOSE ON CRUDE OIL PRICES, ARE BACK IN THE MELTING POT.

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41. THE OPEC COUNTRIES HAVE PUT A STOP TO THE PROCESS OF CONSULTATION WITH THE PRODUCING COMPANIES ON CHANGES IN THE POSTED PRICES OF CRUDE OIL. THE COUNTRIES IN THE ARAB-PERSIAN GULF HAVE, IN PRACTICAL TERMS, RAISED THESE BY 70 PERCENT. LIBYA HAS PUT UP THE PRICE OF ITS FUEL BY 90 PERCENT AND ALGERIA HAS ALSO RAISED ITS PRICES TO CUSTOMERS UNILATERALLY BY 42 PERCENT.

42. CONSIDERABLE UNCERTAINTY THEREFORE HANGS OVER THE FUTURE OUTPUT OF THE ARAB OIL-PRODUCING COUNTRIES. UNTIL RECENT WEEKS, THE PROBLEM WAS ESSENTIALLY PART OF THE EFFORTS BEING MADE BY THE ARAB COUNTRIES TO TAKE OVER THE OIL INDUSTRY ON THEIR TERRITORY. THIS AIM HAS VIRTUALLY BEEN ACHIEVED SINCE THE COUNTRIES ALL HAVE A VARING, BUT IN EVERY CASE LARGE, STAKE IN THE LOCAL OIL INDUSTRY. IN THIS RESPECT, IT IS WORTH NOTING THAT LIBYA HAS VIRTUALLY TAKEN CONTROL OF ALL THE OIL COMPANIES OPERATING ON ITS TERRITORY, EITHER BY NATIONALIZING THEM OR BE TAKING A 51 PERCENT SHARE IN THEIR ACTIVITIES. SAUDI ARABIA HAS ALSO ANNOUNCED THAT IT IS INCREASING ITS SHARE IN THE CAPITAL OF ARAMCO FROM 25 PERCENT TO 51 PERCENT.

43. IN LESS THAN THREE YEARS, MOREOVER, THE PRODUCING COUNTRIES HAVE MANAGED TO BRING ABOUT SIGNIFICANT CHANGES IN THE RELATIONSHIP WITHIN THE OIL INDUSTRY AND IN THIS THEY HAVE BEEN HELPED BY THE SUDDEN SHIFT FROM A SITUATION IN WHICH OUTPUT WAS SURPLUS TO REQUIREMENTS TO A SITUATION IN WHICH THE BALANCE BETWEEN THE OVERALL SUPPLY AND DEMAND IN HYDRO-CARBONS IS A VERY FINE ONE. IN ADDITION, THE USE OF OIL AS MEANS OF POLITICAL PRESSURE IS A FACTOR WHICH CAN NO LONGER BE IGNORED BY THE CONSUMER COUNTRIES.

44. ONE RESULT OF THE MIDDLE EAST FIGHTING WAS THE RECENT DECISION BY THE ARAB OIL-PRODUCING COUNTRIES TO CUT BACK THEIR PRODUCTION BY 25 PERCENT COMPARED WITH THE SEPTEMBER LEVEL. A FURTHER CUT BACK OF 5 PERCENT IS SCHEDULED FOR JANUARY 1974. ALL THE ARAB COUNTRIES HAVE EMBARGOED OIL EXPORTS TO THE UNITED STATES, THE NETHERLANDS AND PORTUGAL. IT SHOULD BE BORNE IN MIND, THOUGH, THAT DECISIONS BY THE ARAB COUNTRIES TO MAKE THESE REDUCTIONS ARE NOT BASED SOLELY ON POLITICAL CONSIDERATIONS BUT ARE ALSO INTENDED AS A MEANS OF PRESERVING OIL STOCKS WHICH MIGHT OTHERWISE RUN OUT FASTER THAN THEY WISH.

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II. ASSESSMENT

A. POLITICAL

45. IN THE LIGHT OF THIS LATEST OUTBREAK OF FIGHTING, THE EFFORTS TO RALLY THE ARAB COUNTRIES UNDER THE AUSPICES OF KING FAISAL, AND PARTICULARLY THE REINTEGRATION OF JORDAN IN THE ARAB WORLD, TAKE ON THEIR FULL SIGNIFICANCE. WHILE SADAT'S REPEATED THREATS OF AN INEVITABLE SHOWDOWN WITH ISRAEL WERE NO LONGER BEING TAKEN SERIOUSLY BY ANYONE, HE WAS PATIENTLY PREPARING THE GROUND FOR A RESUMPTION OF HOSTILITIES. REALIZING THAT THE VARIOUS FORMULAE HE HAD EMPLOYED SO FAR WERE NOT PRODUCING THE EXPECTED RESULTS, SADAT WANTED TO BREAK OUT OF WHAT HAD BECOME A COMPLETELY FROZEN POLITICAL SITUATION. HIS AIM SEEMS TO HAVE BEEN TWO FOLD: SHARPLY TO FOCUS WORLD ATTENTION, AND, IN PARTICULAR THAT OF THE GREAT POWERS, ON THE CONTINUEING DEADLOCK IN A CONFLICT WHICH NO LONGER SEEMED TO INTEREST IT AND, AT THE SAME TIME, TO OBTAIN BARGAINING COUNTERS FOR DIPLOMATIC NEGOTIATIONS THAT FORMED PART OF HIS PLAN(1).

FOOTNOTE (1) TWO DELEGATIONS FURTHER STATED THAT PRESIDENT SADAT DECIDED TO BREAK OUT OF WHAT HAD BECOME A FROZEN POLITICAL SITUATION PROBABLY FOR THE FOLLOWING REASONS, AMONG OTHERS:

(A) DISAPPOINTMENT AROUSED IN EGYPTIAN CIRCLES DUE TO THE CONTINUED REFUSAL OF ISRAEL TO START NEGOTIATIONS WITH A VIEW TO IMPLEMENTING THE SECURITY COUNCIL RESOLUTION 242 WHICH LED HIM TO BELIEVE THAT ISRAEL WOULD NOT GIVE UP THE TERRITORIES WHICH IT OCCUPIED DURING THE 1967 WAR;

(B) POLITICAL PRESSURES BROUGHT UPON PRESIDENT SADAT AS A RESULT OF ISRAELI POLICY BOTH AT HOME AND IN THE ARAB WORLD DUE TO THE CONTINUATION OF THE NON-PEACE NO-WAR SITUATION DESPITE HIS REPEATED PROMISES TO END THE DEADLOCK;

(C) FAILURE OF VARIOUS DIPLOMATIC EFFORTS MADE BY PRESIDENT SADAT IN THE PAST TO MOVE FORWARD ON THE PROBLEM.

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46. MANY PRECONCEIVED IDEAS THAT HAD BECOME INGRAINED WITH TIME AND THAT HAD LED TO THE GROWTH OF A GENERAL PUBLIC BELIEF THAT IT WAS VIRTUALLY IMPOSSIBLE TO FIND A SOLUTION TO THE CONFLICT WERE CALLED INTO QUESTION. THE ARAB SENSE OF COMMON PURPOSE AGAINST ISRAEL ASSERTED ITSELF, IRRESPECTIVE OF DIFFERENCES IN POLITICAL REGIMES OR LEANINGS. IN THIS RESPECT, THE ATTITUDE OF KING FAISAL IS ESPECIALLY NOTEWORTHY. ALTHOUGH MODERATE AND PRO-WESTERN FAISAL FELT COMMITTED, ONCE HOSTILITIES ENSUED, TO USING THE WEAPONS AT HIS DISPOSAL, INCLUDING OIL, EVEN THOUGH THIS POSITION ENTAILED THE RISK OF DAMAGING HIS RELATIONS WITH THE UNITED STATES, WESTERN EUROPE AND JAPAN. THE PROMINENT ROLE PLAYED BY FAISAL MAY, IN FACT, ACCOUNT IN PART FOR GADAFY'S RESERVE ATTITUDE IN THE MILITARY CONFLICT. THE MORALE AND FIGHTING SPIRIT OF THE ARAB SOLDIERS WERE ALSO NOTABLE. THE ARABS PROVED THEIR INCREASED ABILITY TO HANDLE SOPHISTICATED MILITARY EQUIPMENT. ISRAEL'S MILITARY SUPERIORITY WAS CALLED INTO QUESTION, AT LEAST IN THE INITIAL STAGE OF THE CONFLICT. DOUBTLESS, THE FACT THAT THESE PRECONCEIVED IDEAS HAVE BEEN CHALLENGED WILL NOT FAIL TO HAVE
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DIPLOMATIC REPRECUSIONS.

47. DESPITE THE EXPULSION OF SOVIET FORCES FROM EGYPT IN JULY 1972, IT NOW SEEMS CLEAR THAT UNDER SOVIET AUSPICES, THE EGYPTIAN MILITARY MACHINE HAD BEEN IN FACT COMPLETELY OVERHAULED, AND THAT THIS RESULTED IN STIFFER DISCIPLINE

AND BETTER LEADERSHIP IN THE ARAB ARMIES. TWO EVENTS STRONGLY SUGGESTED THAT THE SOVIET UNION KNEW WHAT WAS ABOUT TO HAPPEN. FIRST, TWO DAYS BEFORE THE FIGHTING STARTED, THE FAMILIES OF THE SOVIET TECHNICIANS SERVING IN EGYPT AND SYRIA, AND POSSIBLY SOME OF THE TECHNICIANS THEMSELVES, WERE SENT HOME BY AIR. SECONDLY, A RUSSIAN COSMOS-TYPE OBSERVATION SATELLITE WAS BROUGHT BACK TO EARTH ON THE VERY EVE OF THE WAR. THE QUESTION REMAINS OPEN AS TO WHAT EXTENT, IF AT ALL, THE SOVIETS ATTEMPTED TO DISSUADE THE ARABS FROM RESUMING HOSTILITIES.

48. THE SOVIET UNION DID NOT HESITATE TO GIVE PRIORITY TO SAFEGUARDING AND EVEN IMPROVING ITS POSITION IN THE MIDDLE EAST. AS THINGS TURNED OUT, THE SOVIETS TOOK STEPS DESIGNED TO REFURBISH THEIR IMAGE IN THE ARAB WORLD, ESPECIALLY IN EGYPT AND SYRIA. IN THIS RESPECT, IT ALSO SCORED A POINT AGAINST THE CHINESE, WHO HAD RECENTLY BEEN CONSTANTLY UPBRAIDING MOSCOW OVER ITS LUKEWARM SUPPORT FOR THE ARAB CAUSE.

B. MILITARY

(A) BEFORE 6TH OCTOBER

49. THE MILITARY SITUATION IN THE MEDITERRANEAN WAS SUBSTANTIALLY UNCHANGED IN SO FAR AS THE SOVIET THREAT TO NATO WAS CONCERNED DURING THIS PERIOD.

50. THERE WERE NO INDICATIONS OF SOVIET FORCES BEING STATIONED IN SYRIA NOR OF A RETURN OF SOVIET FORCES TO EGYPT.

51. THE SIZE AND COMPOSITION OF THE SOVMEDRON REMAINED FAIRLY CONSTANT AFTER THE RETURN OF A NUMBER OF SHIPS TO THE BLACK SEA FOLLOWING THE SPRING EXERCISE. THE EARLIER WILLINGNESS OF THE SOVIETS TO TRANSPORT MOROCCAN FORCES AND EQUIPMENT TO SYRIA WAS REPEATED AND THIS WAS THE ONLY SIGNIFICANT SOVIET MOVE. THE SQUADRON'S LACK OF AIR RECONNAISSANCE CAPABILITIES COULD BE,
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AND MAY EVEN HAVE BEEN REPLACED BY A SATELLITE SYSTEM. THE SOVIET UNION'S MARITIME POTENTIAL AND ROLE IN THE REGION CONTINUE TO BE IMPORTANT DESPITE THE LACK OF MEDITERRANEAN-BASED AIR SUPPORT.

52. THE EXISTENCE OF THE LIBYAN RESTRICTED AREA HLR 22 SHOULD BE KEPT UNDER REVIEW.

(B) AFTER 6TH OCTOBER

53. REINFORCEMENT OF THE SOVMEDRON, TAKEN TOGETHER WITH SIGNS OF SOVIET PREPARATIONS FOR POSSIBLE DEPLOYMENT TO THE MIDDLE EAST OF AIRBORNE FORCES, REPRESENTED A POTENTIALLY DISTURBING SITUATION REQUIRING INCREASED ATTENTION BY NATO. THE ENLARGED SQUADRON COULD POSE AN INCREASED THREAT IF IT WERE

DIRECTED AGAINST NATO. HOWEVER, IT IS PRESENTLY CONCENTRATED IN A SMALL AREA IN THE EASTERN BASIN OF THE MEDITERRANEAN.

54. THE PROXIMITY OF THE BLACK SEA BASES TO THE OPERATING AREA IN THE EASTERN MEDITERRANEAN MADE POSSIBLE THE RAPID REINFORCEMENT OF THE SQUADRON IN THIS CASE.

C. ECONOMIC

55. RELATIONS BETWEEN ARAB OIL PRODUCING COUNTRIES AND WESTERN CONSUMING COUNTRIES HAVE BEEN SUBJECTED IN VARYING DEGREES TO NEW PRESSURES ARISING OUT OF THE ARAB IMPOSITION OF OIL EMBARGOES, PRODUCTION CUT BACKS AND PRICE INCREASES. THE GROWING GAP BETWEEN OIL SUPPLY AND DEMAND HAS SEVERELY LIMITED THE CONSUMING COUNTRIES' ABILITY TO NEGOTIATE WITH PRODUCER STATES. THUS THE TRADITIONAL FRAMEWORK WITHIN WHICH OIL IS SUPPLIED IS BEING ERODED. THESE EVENTS HAVE CONFRONTED THE ECONOMIES OF THE COUNTRIES OF THE ALLIANCE WITH A DIFFICULT PROBLEM. WESTERN COUNTRIES WILL HAVE DIFFICULTY IN BRIDGING THAT ENERGY GAP WITHIN THE NEXT FEW YEARS, WITH IMPLICATIONS BOTH FOR PRODUCTION AND NATIONAL FINANCES. IN THE CONFUSED AND EMOTIONAL CLIMATE CREATED BY THE ARAB-ISRAELI CONFLICT IN THE ARAB WORLD NO CLEAR PICTURE EMERGES AS TO THE MANNER IN WHICH CONSUMERS AND PRODUCERS COULD GET TOGETHER AGAIN.

III. IMPLICATIONS FOR THE ALLIANCE

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A. POLITICAL

56. RECENT DEVELOPMENTS SHOW CLEARLY NOT ONLY THE DEPTH OF THE SOVIET COMMITMENT TO PRESERVING ITS INFLUENCE IN THE AREA, BUT ALSO THE IMPORTANCE IT ATTACHES TO ESTABLISHING ITS CREDIBILITY VIS-A-VIS THE ARABS BY VIRTUE OF ITS INTERESTS. THE RISKS TAKEN BY MOSCOW IN BACKING ITS ARAB "CLIENTS" PROVIDE PROOF THAT PENETRATION OF THE MEDITERRANEAN AREA IS A BASIC ELEMENT OF KREMLIN STRATEGY. NONWITHSTANDING THE INHERENT WEAKNESS IN ITS RELATIONSHIP WITH MOST ARAB COUNTRIES, THE SOVIET UNION WAS DUTYBOUND, LEST ITS INFLUENCE IN THE REGION BE SERIOUSLY IMPAIRED, TO EXTEND MASSIVE ASSISTANCE TO COUNTRIES THE SUPPORT OF WHICH, FOR NIGH ON 20 YEARS, HAS BEEN AN INTEGRAL PART OF SOVIET FOREIGN POLICY. THIS CONSTANT SOVIET ATTITUDE ENGENDERED SERIOUS RISKS OF INTERNATIONAL TENSION WITH IMPLICATIONS FOR THE COUNTRIES OF THE ALLIANCE.

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57. THE RECENT CONFLICT WAS A STARTLING REMINDER THAT THE MIDDLE EAST WAS A POWDER-KEG - A PATENT FACT WHICH HAD, PERHAPS, COME TO BE SOMEWHAT OVERLOOKED BY SOME DURING THE PAST FEW YEARS. IT HAS NOW BECOME A COMPELLING NECESSITY TO REACH A JUST, LASTING AND PEACEFUL SOLUTION. THE DIPLOMATIC BASIS FOR SUCH A SOLUTION MAY HAVE IMPROVED. RESOLUTION 338 OF 22ND OCTOBER, 1973 REFERES TO RESOLUTION 242 AND CALLS FOR THE IMPLEMENTATION OF THE LATTER RESOLUTION IN ALL ITS PARTS, BUT IT ALSO STIPULATES "THAT, IMMEDIATELY AND CONCURRENTLY WITH THE CEASE-FIRE, NEGOTIATIONS START BETWEEN THE PARTIES CONCERNED UNDER APPROPRIATE AUSPICES AIMED AT ESTABLISHING A JUST AND DURABLE PEACE IN THE MIDDLE EAST".(1)

FOOTNOTE (1) TWO DELEGATIONS FURTHER STATED THAT THE CONTINUED REFUSAL OF ISRAEL TO START NEGOTIATIONS WITH A VIEW TO IMPLEMENTING THE SECURITY COUNCIL RESOLUTION 242 LED TO THE PROCRASTINATION OF THE DISPUTE AND FACILITATED FOR THE USSR A STEADY INCREASE IN THEIR PENETRATION OF THE AREA.

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FURTHERMORE, THIS SITUATION LED THIS TIME TO A DANGEROUS DEVELOPMENT WHICH COULD HAVE INVOLVED THE WHOLE ALLIANCE. THEREFORE, THE ALLIES SHOULD BE ALL MEANS ENCOURAGE ALL EFFORTS AIMED AT ACHIEVING AN EQUITABLE, JUST AND PEACEFUL SOLUTION TO THIS CONFLICT AS SOON AS POSSIBLE IN ACCORDANCE WITH SECURITY COUNCIL RESOLUTION 242 SO THAT SOVIET PENETRATION IN THE AREA BE CURTAILED AND SIMILAR DEVELOPMENTS INVOLVING THE ALLIANCE IN GREAT RISKS BE AVOIDED IN THE FUTURE.

58. PALESTINIAN LEADERSHIP IS UNCERTAIN HOW TO PROCEED

UNTIL THE SHAPE OF A MIDDLE EAST SETTLEMENT APPEARS. SHOULD PALESTINIAN ASPIRATIONS BE IGNORED OR INCOMPLETELY SATISFIED IN ANY PEACE SETTLEMENT, SUCH A SETTLEMENT WOULD REMAIN EXTREMELY FRAGILE AND THERE WOULD BE A STRONG POSSIBILITY OF A RESURGENCE OF TERRORISM RISING OUT OF FRUSTRATION. FOR ITS PART THE SOVIET UNION HAS BEEN GIVING OF LATE MARKEDLY MORE SUPPORT IN THE POLITICAL SPHERE TO THE PALESTINIAN ORGANIZATIONS. MOSCOW MAY THUS WISH, THROUGH TEM, TO BE ABLE TO INFLUENCE THE COURSE OF DIPLOMATIC EVENTS WITHIN THE OVERALL PERSPECTIVES OF A SETTLEMENT OF THE ARAB-ISRAELI DISPUTE AND PERHAPS ALSO TTO HAVE AVAILABLE IN CERTAIN CIRCUMSTANCES, A MEANS OF EXERTING PRESSURE ON SOME ARAB COUNTRIES.

B. MILITARY

59. IN THE PERIOD PRIOR TO 6TH OCTOBER, THE SUPPLY OF ARMS TO A NUMBER OF ARAB STATES CONTINUED AND ARAB MILITARY CAPABILITIES IMPROVED.

60. WITH REGARD TO THE STEPS TAKEN BY THE LIBYAN GOVERNMENT IN DECLARING THE GULF OF SIRTE AS "INTERNAL" WATERS, IT SHOULD BE NOTED THAT THE EXTENSIVE AREA INVOLVED COULD PROVIDE A "SANCTUARY" FOR SOVIET SUBMARINES, GIVEN THE INABILITY OF THE LIBYANS TO EXERCISE EFFECTIVE CONTROL.

61. UNTIL THE OUTBREAK OF THE MIDDLE EAST WAR, THE SOVIET PRESENCE IN THE AREA REMAINED UNCHANGED. THE RAPID REINFORCEMENT OF THE SOVMEDRON BETWEEN 6TH OCTOBER AND 1ST NOVEMBER DEMONSTRATED THE SOVIET ABILITY IN THIS RESPECT. AFTER THE REINFORCEMENT THE SQUADRON COULD HAVE POSED AN INCREASED THREAT
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TO THE SOUTHERN FLANK. DURING NOVEMBER, THE SQUADRON STRENGTH WAS STEADILY REDUCED TO A MORE USUAL LEVEL. THE SQUADRON CONTINUES TO POSE A THREAT TO THE ALLIANCE AS IT HAS DONE OVER RECENT YEARS AND MERITS CAREFUL ATTENTION.

62. IT IS TOO EARLY TO ASSESS THE IMPLICATIONS OF THE MIDDLE EAST WAR ON NATO. DOUBTLESS THERE ARE MANY LESSONS TO BE LEARNED BUT THIS WILL TAKE TIME AND CAREFUL ANALYSIS OF INTELLIGENCE WHICH IS NOT AVAILABLE AT PRESENT.

63. ONE OF THE IMPORTANT QUESTIONS IS WHETHER THE SUEZ CANAL WILL BE REOPENED AND IF SO WHEN, SINCE THIS WOULD MEAN A GREAT IMPROVEMENT IN THE FLEXIBILITY OF DEPLOYMENT AVAILABLE TO THE SOVIET NAVY.

C. ECONOMIC

64. THE VARIOUS STEPS TAKEN BY ARAB OIL PRODUCERS WITH REGARD TO IMPOSING EMBARGOES ON OIL EXPORTS AND LIMITING PRODUCTION HAVE REDUCED EXPORT AVAILABILITIES BY ABOUT 25 PERCENT

AS COMPARED TO THE ARAB COUNTRIES' DAILY PRODUCTION DURING SEPTEMBER 1973, OR 250 MILLION TONS PER ANNUM. WHEN BOTH DIRECT AND INDIRECT SHIPMENTS OF ARAB OIL ARE CONSIDERED, THE EFFECT OF THE EMBARGOES AND CUT BACKS IS VERY SIGNIFICANT, ESPECIALLY FOR WESTERN EUROPE BUT ALSO FOR THE UNITED STATES. FURTHER CUT BACKS WILL AGGRAVATE THE SUPPLY SITUATION IN WESTERN EUROPE. IF THE SUPPLY SHORTFALLS SHOULD CONTINUE THROUGH SEVERAL MONTHS, THE EFFECT ON THE WESTERN EUROPEAN ECONOMY WILL BECOME INCREASINGLY SEVERE. MOST WESTERN CONSUMER NATIONS ARE TAKING STEPS TO REDUCE PRIVATE CONSUMPTION IN ORDER TO MAINTAIN THE SUPPLIES FOR THEIR INDUSTRIES. DISLOCATIONS IN THE LEVEL OF ACTIVITY IN SOME SECTORS OF THE WESTERN ECONOMIES ARE POSSIBLE. THE CONTINUOUS PRICE INCREASES OF OIL ARE BOUND TO HAVE AN EFFECT ON THE BALANCE OF PAYMENTS POSITION OF THE OIL IMPORTING COUNTRIES AND ALSO INCREASE THE INFLATIONARY PRESSURES EXISTING IN THE ALLIED COUNTRIES.

65. AS REGARDS ITS ECONOMIC IMPACT, THE REOPENING OF THE SUEZ CANAL WOULD, IN MANY CASES, ENABLE COMMERCIAL TRAFFIC TO AVOID THE DETOUR AROUND THE CAPE OF GOOD HOPE AND WOULD THUS BE OF BENEFIT TO TRADE WITH THE THIRD WORLD COUNTRIES IN PARTICULAR.

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66. THE CONCLUSIONS REACHED IN THE PREVIOUS REPORT ON THE NEED FOR EXTENSIVE CONSULTATION BETWEEN THE ALLIED COUNTRIES ARE PARTICULARLY APPROPRIATE IN THE PRESENT CONTEXT (PARAGRAPH 65, C-M(73)49(REVISED)). THERE HAS NOW BEEN A CLEAR DEMONSTRATION, IF SUCH WERE STILL NEEDED, OF THE IMPORTANCE TO THE WESTERN COUNTRIES OF AN ENERGY POLICY ENABLING THEM TO MAKE THE FINANCIAL AND TECHNICAL EFFORTS NEEDED TO PRESS AHEAD QUICKLY WITH THE SEARCH FOR SOURCES OF ENERGY WHICH COULD GRADUALLY TAKE THE PLACE OF ARAB OIL. THIS WOULD - ALTHOUGH NOT FOR SOME YEARS - BRING BACK TO THE INTERNATIONAL ENERGY MARKET THE FLEXIBILITY AND OPTIONS WHICH IT NOW LACKS.

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IV. GENERAL CONCLUSIONS

67. IN THE POLITICAL FIELD, THE CHANGED SITUATION RESULTING FROM THE LATEST ARAB-ISRAELI CLASH HAS SHOWN THAT THE CEASE-FIRE MUST BE FOLLOWED BY AN EFFORT TOWARDS NEGOTIATIONS CONCERNING A SUBSTANTIVE SETTLEMENT OF THE ARAB-ISRAELI DISPUTE, THE PURPOSE OF WHICH MUST BE TO ESTABLISH CONDITIONS OF LASTING PEACE IN THE AREA. THE ALLIED COUNTRIES, WHILST SUPPORTING THE RESOLUTIONS OF THE SECURITY COUNCIL, SHOULD DO ALL IN THEIR POWER TO ENCOURAGE THE OPENING AND SUCCESSFUL OUTCOME OF SUCH NEGOTIATIONS. IN THE MILITARY FIELD, THE DEVELOPMENTS WHICH FOLLOWED THE RESUMPTION OF HOSTILITIES ILLUSTRATE THE FLEXIBILITY AND EFFICIENCY OF THE SOVIET MILITARY SYSTEM IN THE MEDITERRANEAN AND DEMONSTRATE THAT THE THREAT THIS COULD REPRESENT FOR THE ALLIANCE HAS IN NO WAY DIMINISHED AND WARRANTS ENHANCING THE EFFECTIVENESS OF ALLIED DEFENCE CAPABILITIES IN THE AREA. THAT IN THIS CASE THIS MILITARY SYSTEM HAPPENED NOT TO BE DIRECTED AGAINST NATO DOES NOT LESSEN THE POTENTIAL DANGER. IN THE ECONOMIC FIELD, THE ALLIED COUNTRIES SHOULD DETERMINE, THROUGH ALL APPROPRIATE CONTACTS, HOW BEST TO DIMINISH THE IMPACT ON THEIR ECONOMIES AS A WHOLE OF THE ARAB DECISIONS ON OIL SUPPLIES.

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